

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 L-03 SP-02 USIA-06 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

INR-07 NSAE-00 AGR-05 AGRE-00 COME-00 /073 W

----- 075355

R 300756Z SEP 76

FM AMEMBASSY TUNIS

TO SECSTATE WASHDC 4370

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E.O. 11652: N/A

TAGS: USTSJC, TS

SUBJECT: US/TUNISIAN JOINT COMMISSION: BACKGROUND PAPERS -
US TRADE PROSPECTS AND CONSTRAINTS

FOLLOWING IS PROPOSED BACKGROUND PAPER, FOR US/TUNISIAN JOINT
COMMISSION MEETINGS, ON "US TRADE PROSPECTS AND CONSTRAINTS".

1. SUMMARY: ALTHOUGH SMALL, TUNISIA IS A GROWING AND
POTENTIALLY PROMISING MARKET FOR US COMMERCIAL EXPORTS. THE
MARKET IS NOW DOMINATED BY FORCES-LEGAL AND TRADITIONAL--
WHICH SERIOUSLY HINDER PENETRATION BY US EXPORTS. AS A RESULT,
AN UNUSUAL EFFORT IS REQUIRED ON THE PART OF US EXPORTERS.
SO FAR, ONLY A FEW ARE PREPARED TO MAKE SUCH AN EFFORT.
MORE WILL FIND THIS WORTHWHILE IF THEY CAN LOOK TO RETURNS
BEYOND DIRECT SALES IN THIS SMALL DOMESTIC MARKET. END SUMMARY.

2. TUNISIA IS A SMALL MARKET: TUNISIAN MARKET IS SMALL IN
TERMS OF ITS POPULATION (5.5 MILLION PEOPLE) AND MIDDLE-LEVEL
INCOME (\$650 PER CAPITA ANNUALLY). BEING NEITHER POPULOUS
BUT POOR (E.G., EGYPT) NOR SMALL BUT EXCEEDINGLY WEALTHY
(E.G., KUWAIT), IT WILL NEVER RANK AS A MAJOR TRADING PARTNER
OF THE UNITED STATES EVEN WITHIN THE CONTEXT OF THE
MIDDLE EAST. BIG PROJECTS COME ALONG FROM TIME TO TIME
BUT DO NOT DOMINATE THE COMMERCIAL SCENE AS THEY DO IN

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ALGERIA, IRAN, OR EVEN KUWAIT. THOSE WHICH DO OCCUR

OFTEN REQUIRE SUBSTANTIAL EQUITY OR CONCESSIONAL FINANCING FROM THE OUTSIDE--CREATING AN ORIENTATION TOWARD ECONOMIC ASSISTANCE OR INVESTMENT RATHER THAN STRAIGHT TRADE DEALS. AMONG MAJOR PROJECTS FOR THE 5TH PLAN (1977-81), DEVELOPMENT OF THE MISKAR OFF-SHORE GAS FIELD AND A PETROLEUM REFINARY SHOULD BE INTERESTING FOR US COMPANIES. THE SEVERAL LARGE CEMENT FACTORIES DO NOT APPEAR TO BE A GOOD FIT WITH US TECHNOLOGY. THE US SHOULD DO WELL IN HIGH-TECHNOLOGY PRODUCTS, BUT THESE DO NOT PROMISE VERY SUBSTANTIAL EXPORT FLOWS. TUNISIAN OFFICIALS STATE THAT TUNISIA HAS PASSED THE STAGE OF BUYING MANUFACTURED GOODS AND WANTS TO BECOME A PARTNER IN PRODUCTION, MAKING TRADE PROMOTION A MORE DIFFICULT UNDERTAKING.

3. AMERICAN TECHNOLOGY IS WIDELY RECOGNIZED AND RESPECTED: AMERICAN GOODS, OFTEN INTRODUCED THROUGH PAST AID PROJECT OR PROGRAM FINANCING, HAVE AN EXTREMELY GOOD REPUTATION IN TUNISIA. THEY ALSO, UNFORTUNATELY, HAVE THE REPUTATION--NO LONGER FULLY JUSTIFIED-- FOR BEING EXPENSIVE VIS-A-VIS EUROPEAN COMPETITION. HEAVY TRANSPORTATION COSTS CONTRIBUTE A GRAIN OF TRUTH TO THIS IMPRESSION. ONE TUNISIAN IMPORTER, FOR EXAMPLE, RECENTLY CITED EXAMPLES OF SHIPMENTS OF IDENTICAL TYPES OF GOODS (GLASSWARE) FROM THE US AND THE PEOPLES REPUBLIC OF CHINA; TRANSPORTATION FROM THE US ON HIGHER-VALUE MERCHANDISE WAS 40-60 PERCENT OF THE FOB VALUE OF THE MERCHANDISE, WHEREAS IT WAS ONLY 10 PERCENT OF THE VALUE OF THAT FROM THE PRC. LANGUAGE DISTANCE HAS AN IMPACT BEYOND TRANSPORTATION COST. AMERICAN MANUFACTURERS OFTEN USE EUROPEAN AGENTS TO HANDLE SALES IN TUNISIA, OR TO SUPERVISE TUNISIAN AGENTS, RESULTING OCCASIONALLY IN HIGH PRICES DUE TO EUROPEAN MARKUPS AND/OR POOR AFTER-SALES SERVICE. INCREASING DIRECT US PRESENCE OR DIRECT RELATIONS WITH TUNISIAN AGENTS IS AMELIORATING THIS SITUATION.

4. A HISTORY OF SCARCITY AND CONCESSIONAL FINANCING HAS DISTORTED OUTLOOK ON COMMERCIAL RELATIONS: IN THE EARLY YEARS OF INDEPENDENCE, TUNISIA SURVIVED ON CONCESSIONAL FINANCING AND EXTERNAL SUBSIDIES--BOTH FOR LIMITED OFFICIAL USE

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FOODSTUFFS AND MANUFACTURED GOODS. IMPORT LICENSES DEPENDED ON FINANCING, REGARDLESS OF PRICE OR QUALITY OF THE GOODS, DUE TO A SEVERE SHORTAGE OF FOREIGN EXCHANGE. THE SCARCITY OF GOODS CREATED A DOMESTIC SELLER'S MARKET IN WHICH THE ONLY CONSTRAINT TO SALES WAS THE ABILITY TO OBTAIN A LICENSE AND THUS IMPORT THE GOODS. ,EITHER QUALITY, ADVANCED TECHNOLOGY, PRICE NOR SERVICE WERE IMPORTANT CONSIDERATIONS. THIS SCARCITY SITUATION HAS

NOW CHANGED DRASTICALLY-NEVERTHELESS, NOT ONLY DOES FINANCING REMAIN INORDINATELY IMPORTANT, BUT IMPORTERS AND GOT OFFICIALS CLING TO OLD WAYS OF DOING BUSINESS RATHER THAN AGGRESSIVELY SEARCHING THE WORLD MARKET FOR OPTIMAL TRADE OPPORTUNITIES.

ON MAJOR PROJECTS, FINANCING REMAINS CRITICAL TO THE CHOICE OF SUPPLIERS, PARTICULARLY SINCE THE FRENCH ARE WILLING TO PROVIDE CONCESSIONAL TERMS FOR TRANSACTIONS THAT WE WOULD CONSIDER COMMERCIAL, E.G., THE PROPOSED SOUSSE POWER PLANT. AMERICAN SUPPLIERS OFTEN FIND A LACK OF COMPETITIVE EXPORT FINANCING THE MAJOR OBSTACLE TO CLOSING DEALS IN TUNISIA. FOR SOME PRODUCTS, E.G., AIRCRAFT, THE VIRTUAL MONOPOLY HELD BY THE US RESULTS IN SALES DESPITE HARD FINANCING.

5. BUREAUCRACY IS OVERWHELMING, PARTICULARLY FOR AMERICAN BUSINESSMEN WHO ARE UNACCUSTOMED TO EXCHANGE AND TRADE CONTROLS: LONG TIME LAGS INVOLVED IN ISSUING IMPORT LICENSES AND OPENING LETTERS OF CREDIT CREATE PROBLEMS IN TODAY'S UNSTABLE MARKET CONDITIONS. PRICE QUOTATIONS ARE OFTEN OUTDATED BEFORE THE BUYER CAN COMPLETE NECESSARY FORMALITIES. THE IMF HAS URGED THE TUNISIAN GOVERNMENT TO LOOSEN ITS GRIP ON TRADE. DESPITE SUCH RECOMMENDATIONS, AS WELL AS NUMEROUS REORGANIZATIONS AND PERSONNEL CHANGES IN THE RELEVANT GOVERNMENT OFFICES, CONTROLS REMAIN TIGHT AND FRUSTRATING-- BOTH FOR TUNISIANS WHO HAVE BECOME RESIGNED TO IT, AND PARTICULARLY FOR AMERICANS WHO OFTEN FEEL THE POTENTIAL GAINS ARE NOT WORTH THE EFFORT.

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ACTION NEA-10

INFO OCT-01 ISO-00 L-03 SP-02 USIA-06 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

INR-07 NSAE-00 AGR-05 AGRE-00 COME-00 /073 W

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6. THE TUNISIAN ECONOMY IS STRONGLY ORIENTED TOWARD TRADITIONAL SUPPLIERS--THE "FRENCH CONNECTION": AMERICAN FIRMS FACE TOUGH AND NOT ALWAYS ABOVE-THE-TABLE COMPETITION AND BARRIERS FROM TRADITIONAL SUPPLIERS OF GOODS AND CAPITAL WHOSE LINKS TO TUNISIA'S COMMERCIAL AND INDUSTRIAL SECTORS EXTEND BACK TO THE FRENCH PROTECTORATE. AFFINITY OF LANGUAGE AND ADOPTED CULTURE, FAMILY TIES, POLITICAL RELATIONS, AND PHYSICAL PROXIMITY PLACE FRENCH--AND TO A CERTAIN EXTENT ITALIAN COMPANIES--A STEP AHEAD OF AMERICANS. PROPENSITY TO TURN TO TRADITIONAL SOURCES IS NOT RESTRICTED TO IMPORTERS, BUT ALSO TO EVIDENT AMONG GOVERNMENT OFFICIALS WHO CONTROL IMPORT LICENSES AND FOREIGN EXCHANGE ALLOCATIONS. IMPORT LICENSES ARE OFTEN DENIED SIMPLY BECAUSE THE PRODUCT OR SUPPLIER IS NEW TO THE MARKET. IN THE ENGINEERING AND ENGINEERING CONSULTANT FIELD, LOCAL OFFICES OF FRENCH OR ITALIAN FIRMS ARE IN ON THE GROUND FLOOR OF LARGE PROJECTS, AND REGISTRATION REGULATIONS MAKE IT DIFFICULT FOR NEW FIRMS WITH AMERICAN PARTNERS TO ESTABLISH THEMSELVES IN TUNISIA. THIS TENDENCY TO RELY ON TRADITIONAL, COMFORTABLE SOURCES IS NOT ALWAYS CONSCIOUS POLICY--BUT IS A FACTOR IN THE MARKET WHICH WILL REQUIRE A SUBSTANTIAL EFFORT BY AMERICAN FIRMS TO OVERCOME.

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7. IMPLICATIONS FOR USG TRADE PROMOTION ACTIVITIES: COMMERCIAL VISIBILITY IN THE TUNISIAN MARKET IS IMPORTANT TO THE US FOR POLITICAL AS WELL AS DIRECT COMMERCIAL REASONS. GIVEN THE VARIOUS CONSTRAINTS AND DIFFICULTIES CITED EARLIER, THIS VISIBILITY WOULD BE VIRTUALLY NON-EXISTENT IF THE USG DID NOT MOUNT AN ACTIVE TRADE PROMOTION PROGRAM. EFFORTS TO INTEREST US SUPPLIERS IN TUNISIA AS WELL AS EFFORTS TO FIND OR CREATE OPPORTUNITIES FOR AMERICAN EXPORTS SHOULD RECEIVE EQUAL ATTENTION. THESE EFFORTS WILL NOT ALWAYS PAY OFF IN DIRECT EXPORTS TO TUNISIA, BUT TUNISIA--WITH SOMEWHAT MORE SOPHISTICATED AND AFFLUENT CONSUMERS, BOTH INDUSTRIAL AND HOUSEHOLD--CAN BE AN IMPORTANT DEMONSTRATION MARKET IN THIS ARE FOR AMERICAN GOODS, STIMULATING DEMAND IN THE LARGER MARKETS OFFERED BY ITS NEIGHBORS. TRADE PROMOTION EVENTS WHICH EXPOSE TUNISIAN BUYERS TO ADVANCED AMERICAN TECHNOLOGY ARE WELL RECEIVED IN TUNISIA AND ARE SUPPORTED BY RELEVANT

TUNISIAN GOVERNMENT AGENCIES.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: DATA, TRADE PROMOTION, MARKETS
Control Number: n/a
Copy: SINGLE
Draft Date: 30 SEP 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976TUNIS06800
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760368-0956
From: TUNIS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t1976091/aaaaaif.tel
Line Count: 225
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 15 JUN 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <15 JUN 2004 by BoyleJA>; APPROVED <16 JUN 2004 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: US/TUNISIAN JOINT COMMISSION: BACKGROUND PAPERS - US TRADE PROSPECTS AND CONSTRAINTS FOLLOWING IS
PROPOSED BACKGROUND PAPER, FOR US/TUNI
TAGS: ETRD, BTIO, TS, US, USTSJC
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006